

DEPARTMENT OF FAIR EMPLOYMENT & HOUSING

2218 Kausen Drive, Suite 100, Elk Grove, CA 95758-7115
(916) 478-7251 TTY (800) 700-2320 Fax (916) 478-7329



December 9, 2009

Philip Yu
Internal Audit Bureau
Franchise Tax Board
P.O. Box 1468
Sacramento, CA 95812-1468

Re: Department of Fair Employment & Housing: FISMA Audit for 2007 & 2009

Dear Mr. Yu:

We appreciate the opportunity to address the issues raised in your Draft Audit Report dated December 1, 2009 regarding the Department of Fair Employment & Housing's (DFEH or Department) internal control structure. As you know, this report was requested and conducted to assess the DFEH's compliance with Government Code section 13400, which created the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA).

With respect to the situation described on page 3 of the report involving vacant positions, the DFEH will accept the report's recommendation and ensure that it is clearly stated in the department's procedures not to place temporary employees in permanent vacant positions. Additionally, all human resources staff will receive Government Code section 12439 provisions and instructions on how to appropriately preserve vacant positions.

The response below is organized in a manner to address each finding and recommendation stated in the "**Evaluation of Risks and Controls**" section of the report.

Cash Receipts/Payment Processing:

Finding 1:

Inconsistent handling of payments received in the District Offices. Some District Offices process and deposit payments received while other District Offices send payments received to the Accounting unit for processing and deposit.

Recommendation

All District Offices should process and deposit payments received per the bank deposit procedures outlined in the DFEH's Enforcement Division's Clerical Manual.

The DFEH agrees with the recommendation. Accordingly, the Department will instruct its employees to comply with the deposit procedures outlined in the Enforcement Division's Clerical Manual. Additionally, the DFEH will review the current procedures and update and enhance as necessary.

Finding 2:

Deposits from the District Offices are not always posted timely in CALSTARS.

Recommendation:

- **District Offices should follow the bank deposit procedures outlined in the DFEH's Enforcement Division's Clerical Manual.**
- **After a deposit is made at the bank, the District Office should forward the original deposit receipt, original Report of Deposit with copies of the checks and money orders, and the Bank Deposit Recap Sheet to the Accounting unit.**

The DFEH will reiterate the procedures for handling money to each of its district offices, so that deposit slips are mailed to the Department's accounting office in a timely manner.

Finding 3:

No log, record, or cash receipts register is kept by the Accounting unit to document money received and placed in the safe prior to deposit.

Recommendation:

A register or log should be used to record the type of collection (such as cash, check, or money order) received from each payer. This should also be practiced in the District Offices.

The DFEH will create a log and post all cash receipts.

Finding 4:

The combination on the safe is not changed periodically nor has the combination been changed when an Accounting employee left the DFEH.

Recommendation:

- **The combination should be changed when an employee having knowledge of the combination leaves the DFEH or when the combination becomes known to an excessive number of employees.**

- **A record should be kept showing the date the combination was last changed and names of persons knowing the present combination.**

The Department will change the combination of the safe in the next two weeks and establish policies in accordance with the report's recommendation.

Finding 5:

There is a lack of separation of duties over the cash receipts/payment process, as well as other accounting processes in the District Offices and the Accounting unit.

Recommendation:

- **Separation of duties should be established for all accounting processes in the District Offices and in the Accounting unit.**
- **The same employee that receives cash receipts/payments should not prepare the deposit and make the deposit, nor input deposit information into CALSTARS.**
- **A limited number of Accounting staff should have access to the blank check stock.**
- **The same Accounting employee that has access to the blank check stock should not be completing the bank reconciliation.**
- **The same Accounting employee that has access to the blank check stock should not be posting transactions in CALSTARS.**
- **The same Accounting employee that has access to the blank check stock should not be preparing checks for payment.**

The DFEH agrees with the recommendation. Accordingly, the Department will establish new processes to separate the duties as outlined above.

Finding 6:

Bank reconciliations were not prepared prior to 2009 and there has been a cumulative \$10,000 outstanding reconciling item. In addition, the bank reconciliations do not have evidence of independent review.

Recommendation:

- **Monthly bank reconciliations should be completed.**
- **The person reconciling the bank statement should trace every reconciling item between the bank and the DFEH's records and include an explanation for any outstanding reconciling items on the reconciliation.**
- **All bank reconciliations should be reviewed and include the preparer's name, reviewer's name, date prepared, and date reviewed.**

The DFEH has consistently performed bank reconciliations since March 2009. The work of the Department's Senior Accounting Officer, Specialist, who is responsible for the reconciliation, is reviewed by the Chief Fiscal Officer. Consequently, independent review of the system presently exists.

With respect to the outstanding reconciling item, the DFEH bank balance is \$10,000 greater than the CALSTARS balance, which indicates there are checks that have never been cashed. In order to identify the cumulative \$10,000 outstanding amount, the DFEH accounting staff is currently conducting bank reconciliation prior to March 2009. Going back to April 2008, the Department has already identified several checks that have not cleared. The DFEH will continue to go back through the months and conduct reconciliations in order to identify the remaining outstanding balance.

Finding 7:

No documented policies and procedures for all accounting processes.

Recommendation:

- **Written policies and procedures should be established for all accounting processes.**
- **The policies and procedures should be made available to all staff.**

The DFEH agrees with the recommendation and will implement policies and procedures for all staff.

Receivables:

Finding 8:

"Accounts Receivables – Other" in the amount of \$52,203 remain outstanding as of September 30, 2009. These outstanding receivables date back to fiscal years 2001 and 2002. In addition, there is no established and documented collection process for outstanding receivables.

Recommendation:

- **Attempt to collect on the outstanding receivables.**
- **Develop collection procedures that will assure prompt follow-up on receivables.**
- **Develop write-off procedures for uncollectible receivables.**

The \$52,203 outstanding account receivables are believed to be errors in coding administrative fines ordered against respondents or defendants on legal actions

prosecuted by the Department. These fines are directed to the General Fund and not the Department. Therefore, the DFEH believes the amounts were mistakenly coded in CALSTARS as accounts receivable. The DFEH Chief Financial Officer intends to discuss the coding with the Department of Finance, so that the outstanding amounts can be removed from the Department's system.

Fixed Assets:

Finding 9:

A triennial physical property inventory has not been conducted.

Recommendation:

- **Develop a process, procedures, plan, and schedule for taking a physical property inventory.**
- **Conduct a physical inventory of all property and reconcile the results with the property register and general ledger.**

The DFEH accepts the recommendation and will develop processes and procedures for conducting a physical property inventory. The Department will conduct the inventory of all property, and reconcile the results with the property register and general ledger. The Department's business services office will have primary responsibility for the inventory with the assistance of the DFEH information system center (ISC).

Finding 10:

No documented procedures for the survey and surplus of fixed assets.

Recommendation:

- **Written procedures should be established for the survey and surplus of fixed assets.**
- **The procedures should be made available to all staff.**

As recommended, the DFEH will ensure that procedures concerning survey and surplus of fixed assets are in writing and communicated to all Department staff. Presently, all DFEH offices are required to submit STD 152 forms that list surplus property. Where surplus is identified, the DFEH business services office contacts the Department of General Services (DGS) for approval and identifies authorized donees to receive the surplus property, typically public schools.

Information Technology (IT):

Finding 11:

There is a lack of separation of duties in regards to the IT inventory spreadsheet and IT equipment in the District Offices and headquarters.

Recommendation:

- **Separation of duties should be established over IT inventory in the District Offices and at headquarters.**
- **A limited number of IT staff should have the capability to update the IT inventory spreadsheet.**
- **IT staff that has access to IT equipment should not have the capability to update the IT Inventory spreadsheet.**
- **The individual that conducts the IT inventory should not have the capability to update the IT inventory spreadsheet.**

The DFEH will ensure that the same ISC (IT) staff member who updates the inventory list does not have access to the equipment; and that the same staff member who has access to the equipment does not also manage the inventory list.

Finding 12:

Physical property inventory of IT assets has not been conducted. In addition, a plan, schedule, and procedures do not exist in regards to taking the physical inventory.

Recommendation:

- **Procedures and a plan regarding taking physical inventory of IT equipment should be developed.**
- **A time schedule should be prepared with the location and the individual performing the physical inventory.**

The DFEH will develop a procedure, time schedule, and plan that will require its ISC (IT) staff to take inventory of all equipment annually.

Finding 13:

Ten newly acquired laptops were stolen from an unsecured supply room.

Recommendation:

All IT equipment should be stored in a secured room with limited staff access.

The DFEH reported the burglary of its missing laptops to the California Highway Patrol (CHP) immediately following the incident. The CHP investigated and recovered one of the missing laptops, and is prosecuting a suspect for receiving stolen property. The CHP continues to investigate the burglary and will pursue the recovery of the remaining laptops. None of the laptops had been imaged by or contained any Department or private records. Even though there were no privacy security breaches, the DFEH nonetheless reported the burglary and loss of the laptops to the Office of the Chief Information Officer. In the future, the DFEH will ensure that all IT equipment is locked in a secured location and will limit access to only staff with direct responsibility for the equipment.

Finding 14:

The DFEH does not maintain a Software Management Program documented through a Software Management Plan. In addition, the annual certification and summary of updated software inventory has not been completed.

Recommendation:

Develop and implement a Software Management Program that complies with SAM Sections 4846.1 and 4846.2.

The DFEH will develop a program to document its software inventory that complies with SAM sections 4846.1 and 4846.2.

CAL-Cards:

Finding 15:

There is a lack of separation of duties over the Cal-Card process. The same employee that has a Cal-Card is performing the Cal-Card audits.

Recommendation:

- **Separation of duties should be established for all Cal-Card processes.**
- **The same employee that has a Cal-Card should not perform Cal-Card audits.**

There appears to be a misunderstanding regarding the presence of a “separation of duties” regarding the Cal-Card process. Under the Department’s current system, the employee making a purchase using the Cal-Card must first review and confirm that all orders on the Cal-Card bank statement are correct and attach all detailed documentation to the statement. Prior to any Cal-Card purchase, a requesting STD form must be submitted by the unit manager. This document requires two signatures of approval. The bank statement with the attached documents detailing the purchases on the statement is next forwarded to the DFEH Business Services Office (BSO) Manager for second review, confirmation and approval. The BSO Manager then forwards all statements with detailed purchase documents verifying the purchases to the DFEH Chief Deputy Director for a third and final review, confirmation and approval. The Department’s accounting office then reconciles the amounts with statement and invoices received from vendors for final confirmation and payment.

As outlined in DFEH policies, all supervisors must receive approval from their supervisors/managers on all requests prior to executing any type of purchase, which includes the BSO personnel utilizing Cal-Cards.

Employment and Housing Case Files:

Finding 16:

There is no centralized tracking and monitoring of Public Records Act (PRA) requests.

Recommendation:


- **The DFEH should centralize PRA requests. PRA requests should be centrally managed.**
- **For separation of duties, the individual that receives the PRA request and payment for the PRA request should not be the one that completes the PRA request.**

The Department attempted to centralize all PRA responsibilities approximately a decade ago, but found the system to be inefficient. It would be difficult to centralize all PRA requests at the Department, because the DFEH receives approximately 20,000 complaints per year, and the case files are maintained in its district offices. Thus, a centralized system of responding to PRA requests can delay the process and risk failure to timely respond under the statutory timeframes. In addition, many PRA requests consist of inquiries from the press, which require a quicker response than the allowable statutory period. Nevertheless, the DFEH will employ its best efforts in ensuring that there is “separation of duties” regarding the staff member who receives the request and the one responsible for processing.

Conclusion:

We very much appreciate the time and effort by you and your staff in reviewing and providing recommendations on the Department's operations. The report was extremely helpful in identifying issues that pose potential risks to our internal controls. As you have acknowledged, many of the weaknesses identified are the result of infrastructure constraints on account of the Department's size. Notwithstanding any fiscal and infrastructure constraints, we remain committed to improving the effectiveness, accountability and efficiency in the management of the Department's internal controls.

Sincerely,

A handwritten signature in black ink, appearing to read 'Phyllis W. Cheng', with a long horizontal flourish extending to the right.

Phyllis W. Cheng
Director